

Taxes and Fees on Communications Services in Texas

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Telecom “Fees” Too Taxing?

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Outline

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- Texas Study Results
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Communications Considered

Services

- Voice
- Video
- Internet

Delivery Methods

- Wireline
- Cable
- Wireless
- Satellite



Methodology: Identify Taxes and Fees and Calculate Effective Rates

Video Services:

- Franchise Fees
- Access Fees
- FCC User Fees
- Capital Grants
- Sales Tax

Voice Services:

- Federal and State Universal Service Funds
- Telecommunications Infrastructure Fund
- 911 Tax
- Sales Tax
- PUC Gross Receipts fee



National Study Results

Voice Services: Most taxes and fees are concentrated at state and federal levels.

- Wireline subscribers pay, on average, \$8.50 per month or a rate of 18.78%.
- Wireless Subscribers pay, on average, \$9.15 per month or a rate of over 14.43%.



Results Continued

Video Services: Most taxes and fees are concentrated at local level as proscribed in Franchise Agreements.

- **Subscribers pay, on average, almost \$6.42 per month or a rate of 12.26%.**
- **Average tax rate on general business is 6.12%, half the rate on communications services.**



Where Does Texas Stand?

Average Monthly Rates on Communications Services

	Texas*	Average
Wireline Voice	28.61%	18.78%
Wireless Voice	19.43%	14.43%
Cable Video	12.82%	12.26%
Total Average	16.53%	12.24%

*Average of Dallas and Austin.



Texas Specific Study

- **Compile taxes and fees for 12 representative municipalities.**
- **Calculate Effective tax Rates.**
- **Include Satellite video and VOIP voice services.**



Taxes and Fees In Texas

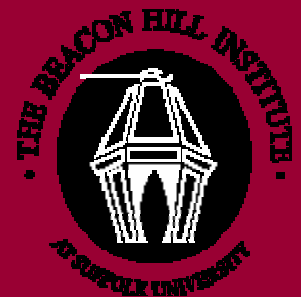
Average Monthly Taxes and Rates on Communications Services

	Wireline	Wireless	VOIP	Cable Video	Satellite Video
Low	\$8.29	\$8.85	\$6.06	\$5.52	\$3.17
High	\$11.96	\$9.68	\$6.38	\$5.83	\$3.17
Average	\$9.60	\$9.43	\$6.27	\$5.80	\$3.17
Average Rate	19.24%	19.13%	19.35%	14.10%	6.25%



Compared to Other Goods and Services

Good or Service	Rate (%)
Wireline	19.24
Wireless	19.13
VOIP	19.35
Cable	14.10
Satellite	6.25
Sales & Use	8.25
Hotel	6.00
Motor Vehicle	6.25
Fireworks	10.25
Mixed Beverages	14.00
Cigarettes	35.60



Why So High?

1. Legacy of a time when the Industry was dominated by government-regulated monopolies.

Today new technologies allow:

- Cable, wireline and wireless companies now compete in each others' traditional core businesses.
- New competitors are entering the market that are not subject to the same cost and tax burdens as the tradition competitors.



2. Politics Prevents Reform

- Telephone and cable companies remain easy targets because nearly everyone is a customer and they are still viewed as tax collection machines able to bear any tax without losing market share to lower taxed competitors.
- Taxes and Fees have morphed into sources of revenue for the general fund and support programs benefiting small interest groups.



3. Bureaucracy

- An enormous bureaucracy has built up around programs funded by communications taxes; and they are well organized and opposed to change.
- Since 1998, the Universal Service Fund rate has tripled and annual dispersals have grown from \$5 to \$7 billion.



Consequences of High Taxes

- Financial burden middle- and lower- income consumers.
- High compliance burden for communications companies.
- Distortion of consumer choices and investment decisions.



Reform Opportunities

State:

- Implement state level taxes that reduce communications taxation to the level of general business taxes.

Local:

- Unilaterally repeal current discriminatory taxes, and regulatory obstacles to new entrants.
- Avoid competing with private companies to provide commercial communications services.





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